



September 7, 2010

Mr. Russell Golden
Technical Director
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

File Reference No. 1830-100

Dear Mr. Golden:

The Accounting Principles Committee of the Illinois CPA Society (Committee) appreciates the opportunity to provide our perspective on the *Proposed Statement of Fair Value Measurements and Disclosures (Topic 820): Amendments for Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*. The Committee is a voluntary group of CPAs from public practice, industry and education. Our comments represent the collective views of the Committee members and not the individual view of the members or the organizations with which they are affiliated. The organization and operating procedures of our Committee are outlined in Appendix A to this letter.

The Committee appreciates the Boards' continued efforts to develop common fair value measurement and disclosure requirements. With the increase in the amount of fair value information included in financial statements, clear and consistent guidance on fair value measurements is exceedingly important. We generally agree that the ED would increase transparency, improve the understandability of the fair value measurement guidance, and will more closely converge with the IASB.

However, we have concerns about the level of disclosures required by the ED. We believe that, for some reporting entities, the disclosures will be overly complex and costly to prepare. In addition, we note that much of the guidance being amended was only issued in January 2010. We believe this constant shifting of disclosure requirements breeds complexity and confusion. Further, we note that the Board is considering additional disclosure requirements in the Financial Instruments project as well as conducting a separate project to develop a disclosure framework. We strongly recommend the Board defer adding or amending the disclosure requirements for fair value measurements until those projects are completed.

In addition, we continue to object to the required use of "exit price" for measuring fair value of all liabilities, in particular for liabilities that are neither transferable nor able to be settled at an exit value. As the Board notes in its discussion on "highest and best use," an alternative use for a financial instrument would result in a different instrument and the objective is to measure the asset recorded, not a different one. A liability that is not transferable is transacted at a price that reflects the fact that it is not transferable. Therefore, assuming transferability by mandating use of exit price is measuring a different liability, not the one recorded. We believe the Board should



specify settlement amount as the appropriate measure for liabilities. This will take into consideration not only exit prices and payoffs of non-transferable loans, but refinancing (and therefore settling) private debt which is likely the only real means of exiting those liabilities. We believe refinancing in particular is a better measure for non-public debt as that captures not only the changes in market interest rates but also in the credit standing of the issuer and, for issuers whose debt does not trade in public markets, is likely the only meaningful depiction of the fair value of that debt.

Our comments on specific questions posed by the Board are as follows:

Question 1: *This Exposure Draft represents the Board's commitment toward developing common fair value measurement guidance with the IASB. Do you think the proposed amendments:*

- a. Would improve the understandability of the fair value measurement guidance in U.S. GAAP? If not, why not?*
- b. Would result in any unintended consequences on the application of the amendments? If so, please describe those consequences.*

In general the Committee believes that the ED would improve the understandability of the fair value measurement guidance in US GAAP. We do not note any unintended consequences on the application of the amendments.

Question 2: *The Board has decided to specify that the concepts of highest and best use and valuation premise are only to be applied when measuring the fair value of nonfinancial assets. Are there situations in which those concepts could be applied to financial assets or to liabilities? If so, please describe those situations.*

We agree with limiting the application of the concepts of highest and best use and valuation premise to fair value measurements of nonfinancial assets.

Question 3: *Do you agree with the proposed guidance for measuring the fair value of an instrument classified in shareholders' equity? Why or why not?*

We agree. Based on the principles in the proposed guidance on how to measure the fair value of instruments classified within shareholders' equity, we believe this guidance will not result in a significant change in practice and will serve to **improve consistency** in the application of certain types of instruments such as equity interests issued as consideration in a business combination.

Question 4: *The Board has decided to permit an exception to fair value measurement requirements for measuring the fair value of a group of financial assets and financial liabilities that are managed on the basis of the reporting entity's net exposure to a particular market risk*



(or risks) (that is, interest rate risk, currency risk, or other price risk) or to the credit risk of a particular counterparty.

- a. Do you think that proposal is appropriate? If not, why not?
- b. Do you believe that the application of the proposed guidance would change the fair value measurements of financial assets and financial liabilities that are managed on the basis of the reporting entity's net exposure to those risks? If so, please describe how the proposed guidance would affect current practice.

Yes. We believe this exception is a practical approach for fair value measurement for those entities that manage certain market risks on a net basis as long as certain criteria are met. In our view, practice for most reporting entities is unlikely to change significantly as a result of applying the proposed guidance because we believe these issues are most relevant for financial institutions and investment companies. Further, we believe the exception will allow many entities to continue applying existing fair value measurement techniques that are consistent with the "in-use" valuation premise. However, we note that the criteria in the proposal are narrow, which make it likely that practice will change for certain entities (e.g. investment companies) that manage portfolios involving dissimilar risks.

Question 5: *The Board has decided to clarify the meaning of a blockage factor and to prohibit the use of a blockage factor when fair value is measured using a quoted price for an asset or a liability (or similar assets or liabilities). Do you think that proposal is appropriate? If not, why not?*

We believe the proposal is appropriate with respect to the prohibition of blockage factors when measuring fair value using a quoted price and think the guidance should be consistent across all levels of the fair value hierarchy. Further, we agree that other premiums or discounts should apply if a market participant would take such adjustments into account when pricing the asset or liability, given the unit of account.

Question 6: *The Board has decided to specify that other premiums and discounts (for example, a control premium or a noncontrolling interest discount) should be taken into account in fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy when market participants would take into account those premiums or discounts when pricing an asset or a liability consistent with the unit of account for that asset or liability.*

- a. Do you think that proposal is appropriate? If not, why not?
- b. When the unit of account for a particular asset or liability is not clearly specified in another Topic, how would you apply that proposed guidance in practice? Please describe the circumstances (that is, the asset or liability and the relevant Topic) for which the unit of account is not clear.



We believe the proposal is appropriate. We are not aware of specific examples of instances in which the unit of account is not specified. However, if such a situation exists, we believe management judgment should be applied in determining the appropriate unit of account, and accordingly, the appropriate fair value measurement approach.

Question 7: *The Board has decided to require a reporting entity to disclose a measurement uncertainty analysis that takes into account the effect of correlation between unobservable inputs for recurring fair value measurements categorized within Level 3 of the fair value hierarchy unless another Topic specifies that such a disclosure is not required or a particular asset or liability (for example, the Board has decided in its project on the accounting for financial instruments that a measurement uncertainty analysis disclosure would not be required for investments in unquoted equity instruments). Do you think that proposal is appropriate? If not, why not?*

We do not believe the proposal is appropriate for several reasons. First, the disclosure requirement as drafted is overly complex and essentially requires the reporting entity to perform the uncertainty analysis to determine if disclosure of the uncertainty analysis is required (otherwise how will “significance” be determined and evaluated?). In effect, this requirement appears to be an attempt at further dividing Level 3 fair value measurements according to the sensitivity of the measurements. Such a process will be complex and costly to prepare and even more difficult to audit. Level 3 disclosures by their very nature are the least reliable of the measurements under the fair value hierarchy and it follows that those measurements are also the most sensitive to changes in values of the unobservable inputs used. If the Board continues to believe that more information is required about the subjectivity/sensitivity of Level 3 fair value measurements, we suggest simply requiring disclosure of a range of reasonable valuations (much like the example table provided).

Next, we are not clear about what specifically is required to be disclosed. The example table simply lists the significant unobservable inputs and the aggregate impact (positive and negative) of changing those inputs. We believe that more substantial disclosures would be required under 820-10-55-81, but an example of that information is not provided in the proposal. We recall that the ED preceding ASU 2010-06 provided a five paragraph explanation of the effect of using different inputs and how it calculated that effect for a single number in the disclosure table. We are not clear if such a detailed and lengthy disclosure would be required under the current proposal.

Finally, as noted above, we believe it is inappropriate for the Board to continually amend disclosure requirements while the disclosure framework project is underway. We note that the many of the same paragraphs that were amended by ASU 2010-06 earlier this year would be amended again by this proposal. This constant shifting of requirements breeds complexity and confusion. We recommend that the Board defer adding or amending disclosure requirements until a framework for determining what information should be included in the financial statements is completed.



Question 8: *Are there alternative disclosures to the proposed measurement uncertainty analysis that you believe might provide users of financial statements with information about the measurement uncertainty inherent in fair value measurements categorized within Level 3 of the fair value hierarchy that the Board should consider instead? If so, please provide a description of those disclosures and the reasons why you think that information would be more useful and more cost-beneficial.*

As noted above, we believe the very fact that a particular fair value measurement has been classified as Level 3 communicates that a significant degree of measurement uncertainty is present. The proposed requirements appear to be an attempt at further dividing Level 3 based on how uncertain those uncertain measurements are. We believe such additional information should not be required. However, if the Board determines otherwise, we recommend requiring disclosure of the range of reasonable valuations and a list of the significant unobservable inputs.

Question 9: *The Board has decided to require limited retrospective transition. Do you think that proposal is appropriate? If not, why not?*

We agree.

Question 10: *There is no link to the transition guidance for the proposed amendments that the Board believes would not change practice. Are there any proposed amendments that are not linked to the transition guidance that you think should be linked? If so, please identify those proposed amendments and why you think they should be linked to the transition guidance.*

No. In general, we have not identified any links to the transition guidance for the proposed amendments and that would change practice or the scope of ASC 820.

Question 11: *The amendments in this proposed Update would apply to public and nonpublic entities (that is, private companies and not-for-profit organizations). Should any of the proposed amendments be different for nonpublic entities? If so, please identify those proposed amendments and describe how and why you think they should be different.*

Yes. We believe the amended disclosure requirements should not be required for nonpublic entities. In our opinion, the costs to provide the additional disclosures will be disproportionately burdensome on smaller nonpublic entities, which typically will not have the technical resources on hand to prepare that information and whose users typically have different objectives and needs from users of public entity financial statements.

Question 12: *How much time do you think constituents would need to prepare for and implement the amendments in this proposed Update?*

We believe that certain companies might need a significant amount of time to prepare for and implement the amendments to the disclosure requirements. While certain financial institutions and other large entities may have the resources available to readily provide the disclosures, other



smaller entities who are less sophisticated will require the assistance of valuation professionals, which involves additional costs and time. We ask that the Board consider deferring the effective date if the Level 3 uncertainty analysis is required in the final guidance so that those entities that lack technology, valuation models and sufficient personnel may have more time to comply with this guidance's additional fair value requirements.

We believe the other amendments to the fair value measurement guidance should not require a significant implementation period.

We appreciate the opportunity to offer our comments.

Sincerely,

Reva Steinberg, CPA

Chair, Accounting Principles Committee

Jeffery Watson, CPA

Vice-chair, Accounting Principles Committee



APPENDIX A
ACCOUNTING PRINCIPLES COMMITTEE
ORGANIZATION AND OPERATING PROCEDURES
2010-2011

The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee's comments reflect solely the views of the Committee, and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to study and discuss fully exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times, includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

Public Accounting Firms:

Large: (national & regional)

Robert A. Dombrowski, CPA	McGladrey & Pullen LLP
John A. Hepp, CPA	Grant Thornton LLP
Alvin W. Herbert, Jr., CPA	Retired/Clifton Gunderson LLP
Scott G. Lehman, CPA	Crowe Horwath LLP
Matthew G. Mitzen, CPA	Blackman Kallick LLP
Reva B. Steinberg, CPA	BDO USA LLP
Jeffery P. Watson, CPA	Blackman Kallick LLP

Medium: (more than 40 professionals)

Gilda M. Belmonte, CPA	E.C. Ortiz & Co, Ltd.
Marvin A. Gordon, CPA	Frost, Rittenberg & Rothblatt, P.C.
Ronald R. Knakmuhs, CPA	Miller, Cooper & Co. Ltd.
Jennifer L. Williamson, CPA	Ostrow Reisen Berk & Abrams Ltd.

Small: (less than 40 professionals)

Barbara Dennison, CPA	Selden Fox, Ltd.
Kathleen A. Musial, CPA	BIK & Co, LLP
Michael D. Pakter, CPA	Gould & Pakter Associates LLC

Industry:

Christopher M. Denver, CPA	Solomon Edwards Group LLC
Kenneth J. Frederickson, CPA	NGL
Farah. Hollenbeck, CPA	Hospira, Inc.
James B. Lindsey, CPA	TTX Company
Michael J. Maffei, CPA	GATX Corporation
Jacob R. Mrugacz, CPA	U.S. Cellular Telephone & Data Systems
Karen R. Page, CPA	David Lewis Co.
Anthony Peters, CPA	McDonald's Corporation

Educators:

James L. Fuehrmeyer, Jr. CPA	University of Notre Dame
Laine E. Malmquist, CPA	Judson University
Leonard C. Soffer, CPA	University of Chicago

Staff Representative:

Paul E. Pierson, CPA	Illinois CPA Society
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